



Expanding Coverage and Choice with Defined Contribution Arrangements

As part of Utah's approach to health system reform, we are increasing consumer information, choice, and power in the health insurance market by creating defined contribution arrangements.

What is a defined contribution plan?

Defined contribution health benefit plans are employer-sponsored health plans that allow individual employees full control over their plan choice. In a defined contribution arrangement, rather than promising or providing a certain level of health benefit, the employer offers a pre-determined level of funding that the employee then controls and uses to purchase their choice of health insurance.

Why did Utah choose this approach?

A defined contribution approach to health insurance puts the consumer directly in control of their health benefit, while preserving all of the federal tax advantages that are currently only available through an employer-sponsored arrangement. This approach is analogous to the movement from a defined benefit pension programs for retirement to defined contributions to an employee's retirement through contributions to an individually owned retirement account. Having consumers more engaged in the process will lead to more efficient health care and better health.

What is the advantage for employers?

The advantage to the employer is that in this simplified system, their only decision is how much to contribute toward the employee's health benefit each year. Employers, particularly small employers, will enjoy a significant reduction in administration as they are no longer responsible for choosing the benefit structure, insurance company, or provider network. Employers will no longer have to look for a plan that works for everyone. Furthermore, the ability to make a defined contribution to employees' preferred plans, rather than designating a defined benefit, allows employers to predict future health benefit costs.

What is the advantage for employees?

Employees, not employers, may choose, buy, and own the health care coverage that best meets their needs, starting with the pre-tax employer's contribution and adding additional pre-tax personal funds as desired. Workers who currently do not qualify for employee health coverage (such as part time or contract employees) could now be eligible to receive an employer contribution toward their health insurance. In addition, health benefits will be portable from job to job so long as both employers participate in defined contribution arrangements. This could have a major impact on the health care system. As consumers are given the opportunity to engage in informed choices, competition will increase and health plans will have to respond directly to consumer needs and demands.

Where can employees compare plans and shop for health care coverage?

In order for a defined contribution system to function efficiently, consumers need a single shopping point where they can evaluate their options and execute an informed purchasing decision. Families and individuals must have access to reliable information to allow consumers to make side-by-side comparisons of their options.

The Utah Health Exchange is an internet-based information portal with three core functions:

- 1) Provide consumers with helpful information about their health care and health care financing
- 2) Provide a mechanism for consumers to compare and choose a health insurance policy that meets their needs
- 3) Provide a standardized electronic application and enrollment system

In addition, the Utah Health Exchange will allow for premium aggregation from multiple sources (for example, premiums from multiple employers for an individual, from multiple employers for different family members, or from state premium assistance programs) for a single policy.

When will the defined contribution system be operational?

The defined contribution system will be available for small employers (2-50) for plans with effective dates of January 1, 2010, and to eligible large employers for plan effective dates of January 1, 2012.